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FM AMEMBASSY YEREVAN

TO RUEHC/SECSTATE WASHDC IMMEDIATE 9081

INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE PRIORITY

RUEHLMC/MILLENNIUM CHALLENGE CORPORATION WASHINGTON DC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 YEREVAN 000347

SIPDIS

E.O. 12958: DECL: 05/20/2019

TAGS: PGOV KDEM AM

SUBJECT: ARMENIAN REACTION TO SECRETARY'S LETTER ON MCC

REF: YEREVAN 345

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Classified By: Ambassador Marie L. Yovanovitch, reasons 1.4(b,d)

SUMMARY

¶1. (C) Following receipt of the Secretary's May 12 letter to President Sargsian concerning Armenia's MCC program, Ambassador requested an appointment with Sargsian to discuss the letter and gauge reaction. Although scheduling issues prevented that meeting from taking place before the Ambassador's previously planned internal travel from May 18-20, we learned on May 14 that the Presidency had in fact received a copy of the letter through the Armenian Embassy in Washington. Presidential advisors have told us the President viewed the letter as "positive," and would be preparing a response soon. FM Nalbandian reacted negatively, however, complaining to the Ambassador on May 16 that the timing of the letter -- coming just days after Nalbandian's visit to Washington -- was problematic. Nalbandian downplayed MCC conditionality, stating that the U.S. "knows very well that the March 1 detainees will be released," and arguing that the U.S. should help Armenian in these difficult economic times. End summary.

PRESIDENT VIEWS MCC LETTER AS "POSITIVE"

¶2. (C) Although the Ambassador has not yet had the opportunity to discuss the Secretary's May 12 letter on MCC personally with President Sargsian, we have been told by two of Sargsian's chief advisors that the President views the letter as "positive." Vigen Sargsian, the President's Chief of Staff, made that comment to Deputy PolChief on the margins of a National Security Council conference on May 14, and repeated it to the DCM in a meeting on May 20. Sargsian added to DCM that the Presidency is now preparing a response to the letter, which should be ready "in a matter of days."

¶3. (C) Vigen Sargsian and presidential advisor (and son-in-law) Misha Minasian added that Armenia views the MCC program as an important part of its bilateral relationship with the United States, and said MCC infrastructure funding is especially critical as the Armenian economy continues to struggle with the consequences of the worldwide economic downturn. Sargsian said that the President "recognizes that the program is conditional," but urged that the MCC Board take current economic circumstances into account as it makes its decision. On the substantive points raised in the letter, the advisors noted that there would be "a major step forward" on the detainee issue before the June Board meeting, but made no commitment that any detainees would actually be released by that time. (see reftel)

NALBANDIAN MORE NEGATIVE

¶4. (C) In a meeting with the Ambassador on May 16, FM Nalbandian gave a more negative reaction. Nalbandian complained that the timing of the letter - coming just a week after his Washington meeting with the Secretary -- was problematic. Nalbandian said he had been compelled to point out to President Sargsian that the letter had been in the works well before he arrived in Washington. (Comment: Nalbandian's remark suggests that the President may not have viewed the letter as positively as his aides would have us believe. End comment.)

¶5. (C) The Foreign Minister also highlighted Armenia's difficult economic straits, noting a 6.1 percent drop in GDP in the first quarter alone. Nalbandian said Armenia is "looking for a signal" that the United States is supporting Armenia, and flatly stated that the roads funding should be restored. When the Ambassador raised the letter's main points on conditionality, Nalbandian bristled. "The United States knows very well that the March 1 detainees will be released," he said. "That's why we changed our laws." (Comment: Nalbandian is referring to recent changes in Armenia's Criminal Code that were passed at the insistence of PACE. The changes resulted in reduced charges against some high-profile detainees, but have not led to any releases. End Comment.) Nalbandian said that not funding the roads "won't bring democracy to Armenia," but will "create resentment toward the U.S. and U.S. conditions.

¶6. (C) The Ambassador noted that we welcomed last week's release of Shant Harutyunian, one of those charged in the "Trial of Seven," for humanitarian reasons, but said the U.S.

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was not at all certain about the release of other detainees. The Ambassador said the U.S. and the Secretary would very much like to keep the roads program going, but added that Armenia needed to help us do that by showing progress on the relevant issues, especially detainees.

COMMENT

¶7. (C) Nalbandian's testy response to the Ambassador likely reflects the pressure he is under on a range of issues, including Turkey-Armenia normalization and Nagorno-Karabakh. The Foreign Minister generally doesn't engage on the democratization issues relevant to MCC conditionality, so there is probably little he could do substantively (even if he were so inclined) to advance Armenia's case for a positive MCC decision. The one common thread in our conversations with Nalbandian and the Presidency is that the GOAM regards the June decision as important, both for economic and political reasons. The Government is feeling embattled on a number of fronts, and is looking for a boost. Whether that will be sufficient to spur the GOAM to take the necessary action remains another question. End comment.

YOVANOVITCH